Earnings Conference Call
Second Quarter 2008
August 7, 2008

Operator will introduce you, and then begin reading.

Steven Eschbach, Vice President - Investor Relations, speaks.

Good morning. Welcome to Integrys Energy Group's 2008 second quarter earnings conference call. Delivering formal remarks with me today are Larry Weyers, our Chairman, President, and Chief Executive Officer; Joe O'Leary, our Senior Vice President and Chief Financial Officer; Larry Borgard, President and Chief Operating Officer of Integrys Gas Group; Charlie Schrock, President and Chief Executive Officer of Wisconsin Public Service Corporation; and Mark Radtke, President of our nonregulated subsidiary, Integrys Energy Services.

The slides supporting today's presentation and an associated data package are located on our Web site at www.integrysgroup.com. Select Investors, select Presentations, and then today's presentation.

Before we begin, I will advise everyone that this call is being recorded and will be available for replay through November 4, 2008.

I need to direct you to Slides 2 and 3 of our presentation and to point out that this presentation contains forward-looking statements within the definition of the Securities and Exchange Commission's Safe Harbor rules including projected results for 2008 for Integrys Energy Group and its subsidiaries. Forward-looking statements are beyond the ability of Integrys Energy Group to control and, in many cases, Integrys Energy Group cannot predict what factors would cause actual results to differ materially from those indicated by forward-looking statements. I also refer you to the forward-looking statement section of yesterday's news release and to our filed Securities and Exchange Commission disclosure documents for further information. Except as may be required by federal securities laws, Integrys Energy Group and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statement contained in this presentation, whether the result of new information, future events, or otherwise.

Slide 4 indicates that today's presentation includes non-GAAP financial information related to "diluted earnings per share from continuing operations – adjusted," "forward book value," and "managerial gross margin." We believe that diluted earnings per share from continuing operations – adjusted, forward book value, and managerial gross margin are useful measures for providing investors with additional insight into our operating performance and the effects of certain items that are not comparable from one period to the next. Please review the text of this slide regarding non-GAAP financial information.

I will now turn the call over to Larry Weyers. Larry...

Larry Weyers, Chairman, President, and Chief Executive Officer, speaks.

Thanks, Steve. Good morning, everyone, and thanks for joining us on the call today.

I would also like to thank those of you who participated in our recent investor relations perception study. We learned a great deal from your feedback and will be incorporating your suggestions into our future interactions with you.

Now please turn to Slide 5. Consensus opinion from the perception study established three key areas that we need to clarify as far as prospects for our future. They include how we expect to grow our regulated utility segment, the opportunities we see for our nonregulated segment, and how we plan to enhance shareholder value.

Let me begin with growing our regulated utility segment where we have growth opportunities for a number of reasons. First, regulatory catch-up due to rate case moratoriums stemming from our recent acquisitions will allow us to fully capture our expenses and investments in rates and improve our opportunity to earn our authorized rates of return. Second, we are increasing our investment in environmental and electric renewable projects in Wisconsin to help that state reach its proposed environmental compliance requirements and renewable portfolio standards. Third, we plan to increase our investment in natural gas cast iron main replacement in Chicago. This is part of the rider concept we proposed in our last rate case and though it wasn't accepted as part of our 2008-2009 rate structure, we believe a restructured proposal has a good chance of being approved in our next Illinois rate case filing. Finally, we are also continuing to invest in the American Transmission Company in which we own about 34 percent. Although this is an equity earnings stream, it is in large part driven by the growth in investment and an excellent rate structure afforded by the Federal Energy Regulatory Commission.

We also have a number of great opportunities before us for growing our nonregulated energy services business and we intend to capitalize on those opportunities. As such, we are continuing a focused expansion into new markets. We are also continuing to gain greater expertise in renewables, both from a sourcing and product structuring perspective and an asset ownership perspective. As part of our asset management strategy, we continue to evaluate whether our current assets fit our strategic objectives and what must be done to ensure that they do. And, we approach all of this very conservatively. We do this by selling energy to our customers, hedging our sales to lock in margins as soon as practicable, and limiting speculative trading in terms of amounts and market concentration. We continue to expect that Integrys Energy Services will deliver between 10 and 15 percent core earnings growth for this segment.

Ultimately, we expect to continue enhancing shareholder value for our investors. Maintaining our strong dividend track record is one of the ways we do this. We have paid dividends for 68 consecutive years and increased our dividend for 50 consecutive years.   This is a trend that we expect to continue.

Earnings growth from our regulated and nonregulated segments is both real and achievable. Using 2008 as the base, we expect to increase earnings per share by 6 to 8 percent on an average annualized basis.

As you can see in Slide 6, we continue on track with our merger cost savings and costs to achieve those synergy savings. While our current projections have not changed, the merger cost savings are quite different than what we forecasted when the merger with Peoples Energy closed in February 2007. The total five-year merger synergy cost savings have increased by 40 million dollars and the total five-year costs to achieve those synergy savings have declined by 31 million dollars. While most of these merger cost savings will be returned to regulated utility customers in the ratemaking process, we are quite pleased with how the integration has evolved over the past year.

Now we will take a more in-depth look at how we are accomplishing our goals. Joe O'Leary will discuss our second quarter 2008 financial results, anticipated cap-ex spending, financings, and revised guidance. Then Charlie Schrock, Larry Borgard, and Mark Radkte will follow with brief operational updates. I will then return to wrap up our formal remarks and moderate a question and answer session. I will now turn the call over to Joe O'Leary. Joe…

Joe O'Leary, Senior Vice President and Chief Financial Officer, speaks.

Thank you, Larry.

Turning to Slide 7, during the second quarter of 2008 we recognized income available for common shareholders of 24.1 million dollars compared with a net loss of 16.4 million dollars in the same quarter a year ago. This resulted in diluted earnings per share of

31 cents for the quarter ended June 30, 2008, compared with a 22-cent net loss per share for the same period in 2007.

There are 7 key items driving the positive 40.5 million dollar quarter-over-quarter change in earnings available for common shareholders. We have presented them in after-tax dollars and you will find more details in our earnings news release issued on August 6.

Additional detail related to the quarter-over-quarter and year-over-year drivers by segment can be found in the Appendix contained in the slide deck and in the Form 10-Q report we filed with the Securities and Exchange Commission last evening.

Moving on to Slide 8, our projected capital expenditures and depreciation for regulated utility operations for 2008 through 2010 are shown. As can be seen in this slide, our net investment in rate base assets will increase by 756 million dollars over the next three years. A more detailed breakdown of capital expenditures and depreciation by company can be found in the Appendix on Slides 29 and 30.

Although our equity contributions to American Transmission Company decline to zero by 2010, this is not indicative of reduced capital spending on their part. Slide 9, taken from American Transmission Company's 2007 Annual Report, projects that their net investment in plant will grow by approximately 1.7 billion dollars from 2006 through 2017.

Assuming the timely filing and regulatory approval of incorporating the net utility plant growth in rates at the regulated utilities, plus the anticipated growth in earnings from our 34 percent ownership in the American Transmission Company resulting from their projected growth in net utility plant, we expect our net income could grow by 15 to 20 million dollars per year.

Our potential financing plans are included on Slide 10 and have not changed since we discussed them during our first quarter conference call in May.

Now we will move on to our 2008 financial guidance, which is covered in Slide 11.

We expect Integrys Energy Group's 2008 diluted earnings per share to be between 3 dollars and 33 cents and 3 dollars and 53 cents. See our slides, news release, and supplemental data package for additional detail relating to this guidance.

Also included in the news release and supplemental data package is the projected guidance range for 2008 diluted earnings per share from continuing operations – adjusted, which is anticipated to be between 3 dollars and 63 cents and 3 dollars and 83 cents. See our slides, news release, and supplemental data package for further details relating to this guidance.

Slide 12 summarizes the key drivers in the change in the 2008 earnings guidance details just described as compared to what we provided as guidance last May. With respect to the increase in the lower end of the range, there is no single one item that this can be attributed to. For the decrease in the upper end of the range, an expected decline in electric margin due to decreased demand and weather accounts for a 15-cent per share reduction. In the natural gas segment, three items that factor into our change include:

- An increase in margin due to weather, reflecting a 5 cent per share increase;
- An expected increase in bad debt expense, reflecting a 6 cent per share decrease; and
- An expected increase in maintenance expense, reflecting a 9 cent per share decrease.

I will now turn this call over to Charlie Schrock, President and Chief Executive Officer of Wisconsin Public Service, for an update on our Wisconsin and Upper Michigan utilities. Charlie…

Charlie Schrock, President of Wisconsin Public Service, speaks.

Thank you, Joe, and I ask our listeners to refer to Slide 13.

Key accomplishments recently achieved for Wisconsin Public Service included Weston 4 being declared commercially operational on June 30. The 500-megawatt coal-fired base load power plant which is located near Wausau, Wisconsin, was being dispatched by the Midwest Independent System Operator on July 1. In addition, Weston 4 earned the 2008 Plant of the Year award from POWER Magazine. If you are interested in reading more about the award, the URL is listed on this slide.

As you recall from our last earnings call, Wisconsin Public Service filed a request on April 1 with the Public Service Commission of Wisconsin to increase retail electric and natural gas rates for 2009, and the details are on Slide 31. I won't go through all the details, but I will highlight the changes since our call three months ago. We revised our filing to include the 99-megawatt Iowa wind farm. The Public Service Commission staff has completed its audit of the filing. Based on the audit, staff proposes that we receive about 83 percent of our combined electric and natural gas request. Commission hearings are scheduled for September with new electric and natural gas rates anticipated to be effective in January 2009.

On July 4, we were granted approval to increase Wisconsin Public Service's 2008 retail electric rates by 18.3 million dollars, or 2 percent, due to increased fuel and purchased power costs. This is part of the mid-year review of the fuel filing we made in February. Wisconsin's current fuel rules only allow for prospective recovery based upon the effective date of the final rate order. With this additional recovery and given current projected fuel costs, we anticipate that we will recover approximately 80 percent of remaining 16 million dollars of unrecovered 2008 fuel and purchased power costs by year end.

Initiatives that will drive Wisconsin Public Service's value proposition are listed on Slide 14 and include construction of natural gas laterals to the Guardian 2 pipeline in Wisconsin, which we expect to be placed in-service by the end of 2008 at a cost of approximately 75 million dollars, and the acquisition of a 150-megawatt wind farm in Minnesota that we announced in March 2008 and which is expected to achieve commercial operation between 2012 and 2014. These projects are in addition to the 99-megawatt wind farm we expect to acquire in Iowa in the third quarter of 2008 and to become commercially operational late in December 2009. Additionally, we are fully participating in legislative discussions to improve the fuel adjustment clause in the state of Wisconsin.

Now I'll turn the call over to Larry Borgard, President and Chief Operating Officer of Integrys Gas Group. Larry…

Larry Borgard, President and Chief Operating Officer – Integrys Gas Group, speaks.

Thanks Charlie.

Recent key accomplishments in the Integrys Gas Group are indicated on Slide 15 and include reaching satisfactory resolution on new Collective Bargaining Agreements for the represented employees of North Shore Gas and Peoples Gas. Key resolutions included new five-year contracts expiring in 2013, annual wage increases ranging from 3 percent to 3.25 percent, and moving all new hires to a defined contribution plan instead of a defined benefit plan. We are very pleased with the initial favorable labor relations we have established with our union employees in Illinois.

Another key accomplishment for our Gas Group was filing with the Michigan Public Service Commission in May to increase retail natural gas rates by 13.9 million dollars, or 5.81 percent, for Michigan Gas Utilities' customers. The proposed natural gas rate increase is required because of the costs to environmentally remediate former manufactured gas plants, increased depreciation expense, and general inflation. In the rate filing, we requested a 10.7 million dollar, or 4.44 percent, interim rate increase for immediate rate relief, subject to refund. However, due to the Commission staff's workload and the inability to complete an audit of the case until September, we don't expect interim rates to take effect until December at the earliest. We would expect final rates to follow in the second quarter of 2009. This is the first distribution rate increase request since 2003 for our customers in lower Michigan. Additional information on the rate case can be found in the Appendix on Slide 32.

On July 31, we filed with the Minnesota Public Utilities Commission to increase retail natural gas delivery rates by 22.0 million dollars, or 6.4 percent, for customers of Minnesota Energy Resources. In the filing, we requested the entire rate increase be granted as interim rates, subject to refund, and we expect the interim rates to take effect on or about October 1. Higher rates are needed as a result of general inflation coupled with low sales growth and increased costs to provide customer service functions. This will be the first distribution rate increase request since 2000 for our Minnesota customers, and we expect final rates to be effective in May 2009. Additional information on the rate case can be found in the Appendix on Slide 33.

Initiatives that will drive the Gas Group's value proposition are indicated on Slide 16. Now that we have effectively integrated the Gas Group's regulated natural gas utilities both operationally and financially, we are moving forward with rate filings so that our rate base investments and expenses are adequately reflected in rates and we have an opportunity to earn our allowed rates of return. As a result, you can expect to see us move forward with the accelerated investment in replacing cast iron and unprotected steel pipe in Chicago. Recall that approximately 2,000 miles of the 4,000 miles of mains in Chicago need replacement, which amounts to a 2 billion dollar capital project over a number of years.

Now Mark Radtke, President of Integrys Energy Services, will discuss our nonregulated operations. Mark…

Mark Radtke, President of Integrys Energy Services, speaks.

Thanks, Larry.

Our nonregulated business continues to perform well despite the challenging economic conditions. Slide 17 illustrates that growth in terms of our physical retail electric volumes delivered in the second quarter of 2007 versus the second quarter of 2008. The Illinois market has been a bright spot for us as we begin to see the top-line synergies of the Peoples Energy merger and contributions of our larger sales team across the geographic markets including our Mid-Atlantic region, New York, and Texas. Many of our industrial customers in the United States are benefiting from expanded international sales, and we have successfully avoided large credit losses thus far in 2008 through our conservative credit risk management practices and mitigation techniques, which has actually resulted in a slightly favorable financial impact year-over-year both for the quarter and six months ended June 30. Notwithstanding this, delivered retail natural gas volumes are down slightly since last year driven by reduced spot market retail sales. However, those sales were at very low margins so the lost volumes had a negligible impact on our financial performance.

Slide 18 depicts our growing forward book sales, or “backlog.” I am encouraged by our continued success in growing the forward book, especially in this rising energy price environment. Rising prices tend to reduce our customers’ enthusiasm for making long-term price commitments, instead, often choosing to re-contract on a seasonal or even monthly basis. This trend was evident once again in the second quarter of 2008. Electric and natural gas prices peaked around the end of the quarter, but have come off significantly since then. We have begun to see signs of customers returning to more traditional contracting terms as prices have fallen. As long as prices continue to decline or stabilize, I would expect our forward contracted volumes to increase, and I am confident that we are well-positioned to successfully continue our market expansion efforts throughout the coming months.

On Slide 19, you can see that our managerial gross margin—the metric we like to use to measure our business performance—showed a slight decrease from where it was a year ago. Included in the 2007 results, however, is the value associated with the Peoples Energy merger. For comparability purposes, removing that 2007 one-time pop in forward book value, results in a 22.3 million dollar increase in managerial gross margin so far in 2008 compared with 2007. I am quite pleased with this result, particularly in a rising energy price environment. Our wholesale electric origination group produced strong results in the quarter, executing a multi-year power off-take agreement with a wind generation facility.

We have previously discussed Managerial Gross Margin and how it differs from generally accepted accounting principles or GAAP gross margin. Slide 20 takes it one step further by giving a total adjustment that eliminates the volatility that derivative accounting can introduce. The Mark-to-Market Volatility Adjustment line items represent the difference between GAAP and Managerial Gross Margin-based earnings. As we have described in the past, this measure removes the timing mismatches caused by derivative accounting rules, and provides a better perspective on the value we actually created during the period. All of the other numbers on this schedule are reflected in our reported actual earnings per share information that Joe referred to earlier.

Slide 21 demonstrates the future impact on GAAP gross margins related to the large derivative accounting gains we have recorded to date. As you can see in the far right column, most of our mark-to-market timing differences relating to contracts terminating in 2008 will reverse out during the remainder of 2008. With that being said, we cannot predict the impact that derivative accounting treatment might have on transactions that settle beyond the current year. It is important to note that these amounts are based on current contracts and do not reflect future new business and further optimization of our portfolio of assets.

Slide 22 highlights some of the initiatives we see for the continued growth of Integrys Energy Services. During the quarter, we announced our definitive agreement to sell our 50-megawatt coal-fired Stoneman power plant located in Wisconsin, and we have since closed on that transaction. This is consistent with our focus on more environmentally-friendly projects. We mentioned last quarter that we created a new group focused on renewable energy, efficiency, and conservation. We discussed the Winnebago Energy Center, a 6.4-megawatt landfill gas to electricity project in Rockford, Illinois. Additional projects we are working on include a number of customer-sited solar projects as well as a dedicated landfill gas delivery pipeline for a customer that values this source of energy. And, finally, we rolled out a new renewable energy product in New York that provides customers the opportunity to purchase renewable energy bundled with rebates to invest in energy efficiency and conservation measures that are most relevant to their specific business. This can include upgrades to process equipment, tightening building envelopes, or deploying more efficient auxiliary equipment.

We continue to expand our presence into new and existing markets. Last year's opening of our Denver office not only enabled us to penetrate new markets in the West, but has given us experience with renewables and allowed us to develop relationships that have significantly enhanced our customer-based origination capabilities in all markets.

Now, I will turn the call back to Larry Weyers. Larry…

The Chairman, President, and Chief Executive Officer speaks.

Thanks, Mark.

Let me remind you of the key points from today's discussion relating to the drivers of our future earnings growth. First, excellent investment potential and the rate case process at our regulated utilities will drive growth. Second, we have great opportunities for growing our nonregulated energy services business which we intend to capitalize on and which we project will deliver between 10 and 15 percent of core earnings growth for this segment. Third, we expect to continue enhancing shareholder value for our investors through dividend increases and by increasing our earnings per share by 6 to 8 percent on an average annualized basis. Finally, as set forth in Slide 23, our earnings guidance for 2008 for diluted earnings per share from continuing operations – adjusted is between 3 dollars and 63 cents and 3 dollars and 83 cents.

We appreciate you listening to our prepared remarks, now I would like to open the floor to questions.

STOP

Allow operator to give instructions.

Repeat the question before answering.

Signal for the last question.

Take last question and then end the call with the following:

Steve Eschbach, Vice President – Investor Relations speaks:

Thank you for being a part of our second quarter earnings conference call. A replay of this conference call will be available until November 4, 2008, by dialing toll free 800-308-7858.

The text for today's presentation is available on our Web site at www.integrysgroup.com. Just select Investors and then Presentations.

If you have additional questions, you may contact me at 312-228-5408 or Donna Sheedy at 920-433-1857.